1 John P. Bovich (SBN 150688)
   Email: jbovich@reedsmith.com
2 Scott D. Baker (SBN 84923)
   Email: sbaker@reedsmith.com
3 Jonah D. Mitchell (SBN 203511)
   Email: jmitchell@reedsmith.com
4 Adaline J. Hilgard (SBN 173213)
   Email: ahilgard@reedsmith.com
5 REED SMITH LLP
   101 Second Street
6 Suite 1800
   San Francisco, CA 94105-3659
7 Telephone: +1 415 543 8700
   Facsimile: +1 415 391 8269
8
   Attorneys for Defendants
9 BOX, INC. and CARAHSOFT TECHNOLOGY
   CORPORATION
10

11   UNITED STATES DISTRICT COURT

12   NORTHERN DISTRICT OF CALIFORNIA

13   SAN FRANCISCO DIVISION

14 OPEN TEXT, S.A.,   No.: C 13-04910 JD

15   Plaintiff,   **DEFENDANTS' RESPONSE TO OPEN
                                                 TEXT S.A.'S PROFFER CONCERNING
16   vs.   EVIDENCE OF DAMAGES AND IN
                                                 SUPPORT OF DEFENDANTS' REQUEST
17 BOX, INC. and CARAHSOFT TECHNOLOGY   FOR LEAVE TO FILE MOTION TO
   CORPORATION,   PRECLUDE DAMAGES CLAIM**
18
             Defendants.   Date: TBD
19   Time: TBD
                                                 Place: Courtroom 11
20
                                                 Compl. Filed: June 5, 2013
21   FAC Filed: December 23, 2013
                                                 Trial Date: February 2, 2015
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   No.: C13-04910 JD

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I.   INTRODUCTION

On January 31, 2015, the Court ordered Open Text to "provide the content of the damages theories it intends to offer, including any royalty base, royalty rate, analysis of Georgia-Pacific factors, or other computations." [Dkt. No. 500] Open Text did not comply with the Court's direction. It did not explain the damages theories it intends to offer, did not identify the royalty base or royalty rate it seeks, and offered no analysis of the *Georgia-Pacific* factors or any other computation supporting its damages claim. Open Text's offer of proof thus fails, and that alone should end the inquiry and preclude any damages claim from going forward.

Far from putting Box[1] or the Court on notice of its theories, Open Text's damages case remains anyone's guess – in fact, guessing is what Open Text impermissibly asks the jury to do. Indeed, rather than provide the Court or Box with any theory, damages amount or computation, Open Text instead claimed it intends to present a host of evidence and inadmissible and undisclosed expert opinion through fact witnesses, but will not advocate for a particular royalty or base to the jury. In other words, Open Text will ask the jury to sort it all out and speculate on any damages award in this case without providing any reliable damages theory or methodology to aid in that exercise. Federal Circuit authority is clear that is impermissible..

Moreover, even if the "substance" of Open Text's Proffer is to be considered, it merely underscores the prejudice to Box and the reasons why Open Text should be precluded from presenting a damages case to the jury. Pages 24 and 25 of the Proffer for Open Text fact witnesses Messrs. Howatson and Carter are illustrative. Open Text claims it intends to elicit testimony concerning the following:

- Ability to separate the value of the patented feature from the value of the whole Box service
- Convoyed sales
- Portion of selling price attributable to analogous inventions
- Advantages of patented technology over other methods (Mr. Carter only)
- Value of comparable technology sold by Open Text
- Pricing of comparable technology sold by Open Text

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[1] For purposes of this brief, "Box" is used to refer collectively to both Defendants Box, Inc. and Carahsoft Technology Corporation.

1   Each of these categories of testimony is the realm of expert opinion, but Open Text never made any

2   expert disclosures for its fact witnesses, nor did it otherwise put Box on notice of the evidence it

3   intends to introduce through these witnesses. Its Proffer shed no further light either, as Open Text

4   failed to indicate what it actually intends to introduce from these witnesses on these subjects.

5   At bottom, this Court gave Open Text a very specific directive to disclose where, in

6   discovery, it provided information on a royalty rate, a royalty base and a royalty calculation relying

7   on the *Georgia Pacific* factors, and what theories and evidence it intends to offer at trial on these

8   issues. It asked for this information because controlling law requires it in discovery and for Open

9   Text to be able to present its case to the jury. Open Text has not responded with the needed

10 information or anything even close to what the law demands. This Court should accordingly find the

11 offer of proof insufficient as a matter of law and preclude Open Text from putting a damage case

12 before the jury.

13 **II.   ARGUMENT**

14

15   **A.   Open Text's Failure to Disclose Its Damages Theory Is Fatal To Its Damages**

16   **Case**

17   Despite the Court's clear request, Open Text's proffer fails to disclose a damages theory.

18 Open Text has therefore violated Rule 26, and its damages case should be precluded. As a matter of

19 law, a patentee cannot introduce a damages theory to the jury without establishing its reliability.

20 *See, e.g., Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011); *Lucent Techs.,*

21 *Inc. v. Gateway, Inc*., 580 F.3d 1301, 1324, 1335 (Fed. Cir. 2009) (vacating damages award where

22 the "jury's damages award [was] not supported by substantial evidence, but is based mainly on

23 speculation or guesswork"). "[A] reasonable royalty analysis requires a court to hypothesize, not to

24 speculate." *ResQNet.com v. Lansa, Inc.,* 594 F.3d 860, 869 (Fed. Cir. 2010); *see also Riles v. Shell*

25 *Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed.Cir. 2002) ("to prevent the hypothetical from

26 lapsing into pure speculation, this court requires sound economic proof of the nature of the market

27 and likely outcomes with infringement factored out of the economic picture.")

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1   Instead of disclosing a damages theory whose reliability can undergo the required testing,

2 Open Text intends to simply "present evidence concerning" the *Georgia Pacific* factors, from which

3 "the jury will be able to carry out its duty." Dkt. No. 503 at 22. Indeed, Open Text confirms that it

4 will not "advocate that the jury apply a particular royalty or base to this case." *Id*. at 23. Open

5 Text's bare refusal to disclose its damages theory – to the jury, to the Court, or to Box – warrants

6 precluding Open Text from presenting a damages case to the jury. *See* Fed. R. Civ. P.

7 26(a)(1)(A)(iii); *Veritas Operating Corp. v. Microsoft Corp.*, Case No. 2:06-cv-00703-JCC, 2008

8 U.S. Dist. LEXIS 35627, at *22 (W.D. Wash. Jan. 17, 2008) (entering summary judgment of no

9 damages based on failure to disclose patent damages calculation during discovery).

10   Open Text's citation to *Apple v. Motorola*, 757 F.3d 1286 (Fed. Cir. 2014), is unavailing.

11 There, Apple had an admissible damages theory. In *Apple*, the district court awarded summary

12 judgment of no damages after finding that, although Apple's expert's testimony was not excludable,

13 it was flawed. *Id.* at 1327-29. The Federal Circuit reversed, holding that "a finding that a royalty

14 estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a

15 reasonable royalty." *Id.* As the Federal Circuit explained, although the district court had excluded

16 some of Apple's damages expert's testimony, there was a measure of damages that it had not

17 excluded; rather, it simply discredited it. *Id.* at 1329.

18   Unlike Apple, Open Text has disclosed no admissible damages theory. Its expert's opinions

19 have been excluded in their entirety. And, despite the Court's directive, Open Text failed to offer

20 any other damages theory or admissible supporting evidence that would meet its burden of proof.

21 Simply put, Open Text should not be placed in a better position because its damages expert – and

22 only disclosed computation of damages – was excluded. The *lack* of a valid computation of

23 damages is not a *reliable* computation of damages. Open Text's damages claim should be precluded

24 on this basis.

25   To that end, the Federal Circuit recognized in *Apple* that a judgment of no damages may be

26 rendered "in a case completely lacking any evidence on which to base a damages award." *Id.* Thus,

27 although the statute [35 U.S.C. § 284] requires an award of a reasonable royalty when there is

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1 infringement, "to argue that this requirement exists even in the absence of any evidence from which

2 a court may derive a reasonable royalty goes beyond the possible meaning of the statute."

3 *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1407 (Fed. Cir.

4 1990). So it is with Open Text's showing here.

5   **B.**   **Open Text's Request That The Jury Be Left To Speculate On Any Damages**

6   **Award Is Impermissible**

7   As the Court recognized in its Order excluding Ms. Holt, a "superficial recitation of the

8 Georgia-Pacific factors, followed by conclusory remarks" is not enough. [Dkt. No. 464 at 9, *citing*

9 *WhitServe, LLC v. Computer Packages, Inc.,* 694 F.3d 10, 31 (Fed. Cir. 2012)]. But Open Text

10 proposes to provide just that. Rather than offer a royalty rate, royalty base, or otherwise present a

11 computation of damages, Open Text instead simply identifies the same reams of evidence that were

12 insufficient to save Ms. Holt's opinion and leaves it to the jury to try to speculate as to what a

13 reasonable royalty would be after applying that evidence to the *Georgia Pacific* factors.

14   Not only does it seek to have the jury guess as to an appropriate royalty, Open Text also

15 seeks to have the jury to consider a litany of inadmissible expert opinions in the guise of lay

16 testimony – opinions that were never disclosed during discovery. In particular, Open Text claims

17 that its fact witnesses will be introducing testimony on at least the following topics:

18
19 - Ability to separate the value of the patented feature form the value of the whole Box service
20 - Portion of the selling price attributable to analogous inventions
   - Convoyed sales
   - Value of comparable technology sold by Open Text
21 - Pricing of comparable technology sold by Open Text
   - Importance of patented technology to Open Text products
22 - Advantages of the patented technology over other methods
   - Open Text use of the patented technology
23 - Lifetime value

24 Each of these categories of testimony is the realm of expert opinion, but Open Text never made any

25 expert disclosures for any of its fact witnesses, nor did it otherwise put Box on notice of the evidence

26 it intends to introduce through these witnesses. Open Text offers no explanation as to how its fact

27 witnesses are qualified to render expert opinions (which they are not) on apportionment of the

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patented feature relative to the whole Box service, convoyed sales, what is an "analogous invention," advantages of the patented technology, or assessing "comparable" technology. Nor did Open Text indicate what it actually intends to introduce from these witnesses on these subjects. For example, apparently, Open Text intends to have these witnesses present testimony on apportionment, but no apportionment is identified.

Courts routinely reject patentees' attempts to do precisely what Open Text is advocating here because only reliable damages theories supported by admissible evidence may be presented to the jury. For instance, in *Unicom Monitoring, LLC v. Cencom, Inc.,* Civil Action No. 06-1166 (MLC), 2013 U.S. Dist. LEXIS 56351, at *25 (D.N.J. April 19, 2013), the court granted summary judgment to defendants on damages because "[a]lthough there are many Georgia-Pacific factors which the Court can consider, the failure to present competent evidence regarding how the factfinder should perform the reasonable royalty calculation is fatal to Unicom's claim for reasonable royalty damages." As the court in *Unicom* explained, "[a] factfinder cannot be asked to speculate from numbers unsupported by law and divorced from expert guidance, but rather…needs either clear guidance from an expert about how to apply complex calculations or simple factual proofs about what this patentee has previously accepted in factually analogous licensing situations." *Id. Info-Hold, Inc. v. Muzak LLC,* Case No. 1:11-cv-283, 2013 U.S. Dist. LEXIS 117953, at *15-17 (W.D. Ohio Aug. 20, 2013), is in accord. There, after excluding the patentee's damages expert's testimony, the court granted partial summary judgment to defendant on reasonable royalty damages because plaintiff's lay witnesses did not have the knowledge or expertise to provide evidence of the amount of reasonable royalty damages. *See also AVM Technologies, LLC v. Intel Corp. ("AVM I")*, 927 F.Supp.2d 139, 146 (D. Del. 2013) (*quoting Donlin v. Philips Lighting N. Am. Corp.*, 581 F.3d 73, 82–84 (3d Cir. 2009)); *AVM II*, 2013 U.S. Dist. LEXIS 66604, at *5-6 (follow-on decision granting summary judgment of no damages because proffered lay testimony "is unimportant in that it is insufficient to support a provable damages theory."). For the same reasons, Open Text's damages claim fails as a matter of law.

C.   **The Preclusion Of Open Text's Damages Claim Is Further Supported By The Prejudice To Defendants Based On Open Text's Failure To Disclose Its Theories And Evidence**

In its Proffer, Open Text revealed that it intends to present expert opinions from its fact witnesses, including on subjects concerning pricing/valuing "comparable" technology, apportionment of the patented technology, pricing attributable to "analogous inventions" and conveyed sales. None of those opinions were produced during fact discovery or in an expert disclosure. And, Open Text shed no further light on them in its Proffer. These opinions likewise cannot be presented for the first time at trial. The prejudice to Box is apparent and conclusive.

Open Text's attempt to introduce through its fact witnesses' undisclosed opinions on pricing/valuing of "comparable" technology is illustrative. Ms. Holt had attempted to introduce such opinions in her Expert Report, but only for the Groupware patents. [Dkt. No. 303-2 at 55-58].[2] She offered nothing of the kind for the File Synchronization patents. [Dkt. No. 303-2 at 73-92]. Now, for the first time, Open Text claims it plans to introduce through its fact witnesses the same kind of opinions for the File Synchronization patents. But it never disclosed those opinions during fact discovery, the expert phase (either through Ms. Holt or otherwise) or even in its Proffer. Instead, Open Text plans to only reveal them during trial. The prejudice resulting from this "surprise" approach to damages cannot stand.

Open Text also suggests that it intends to disclose its damages theory, if ever, during closing arguments. In its Proffer, Open Text claims that "counsel will explain" how the evidence "relate[s] to the jury instructions." [Dkt. No. 503 at 23]. But attorney argument is not evidence, and cannot save Open Text from a finding of preclusion. *See, e.g., Suffolk Techs., LLC v. AOL Inc.*, 752 F.3d 1358, 1367 (Fed. Cir. 2014) (affirming the grant of summary judgment where the district court excluded expert testimony and found that mere attorney argument could not create a genuine issue of material fact, as it is not evidence); *W. Union Co. v. MoneyGram Payment Sys., Inc.*, 626 F.3d 1361,

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[2] The portions of Ms. Holt's Report were submitted with the Declaration of Jonah D. Mitchell in support of Defendants' Motion to Exclude Opinions and Testimony of Ms. Holt. Box will re-submit these portions of Ms. Holt's report if convenient for the Court.

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1 1373 (Fed. Cir. 2010) (reversing a district court's denial of judgment as a matter of law on

2 obviousness where the district court relied on "mere attorney argument"); *In re Budge Mfg. Co., Inc.*,

3 857 F.2d 773, 776 (Fed. Cir. 1988) (finding attorney argument was not evidence and without

4 substance).

5   The Federal Circuit's opinion in *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509 (2012),

6 confirms that Open Text's hide-the-ball approach cannot be allowed. There, the Federal Circuit

7 upheld the district court's decision precluding the patentee from presenting evidence of damages

8 after its expert was excluded. *Id.* at 523. The district court had thrown out the patentee's damages

9 case pursuant to Rule 37 due to concerns that the patentee's "changing [of] the damage calculation

10 methodology on the eve of trial" would "expose [defendant] to an unjustified risk of prejudice." *Id.*

11 The same unjustified risks of prejudice exist here based on Open Text's failure to disclose its

12 damages theories, and it should likewise be precluded from offering those theories for the first time

13 during trial.

14   Essentially, Open Text posits a scenario where the verdict will reveal its damages

15 computation and the Court is left to divine whether the jury properly followed the law. This is not

16 what the controlling authority on patent damages contemplates, and it should not be allowed here.

17

18 **III.   CONCLUSION**

19   Although it was directed to come forward with its royalty rate, base, and computation of

20 damages, Open Text did not. Open Text's failure to meet the required offer of proof is fatal to its

21 damages case. Apart from that, Open Text has offered nothing that would leave the factfinder in a

22 position to value the File Synchronization patents for any damages award. Accordingly, Open Text

23 should be precluded from presenting a damages claim and judgment for failure to meet its burden of

24 proof should issue in favor of Box.

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Dated: February 1, 2015

Respectfully submitted,

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/s/ Jonah D. Mitchell

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Jonah D. Mitchell (SBN 203511)
Email: jmitchell@reedsmith.com

4

REED SMITH LLP
101 Second Street, Suite 1800

5

San Francisco, CA 94105-3659
Attorneys for Defendants Box, Inc. and

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Carahsoft Technology Corporation

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